

WATER/RHG

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of PARK WATER)	
COMPANY U-314-W, for Authority to Issue)	Application 01-12-011
Evidence of Indebtedness (First Mortgage Bonds).)	(Filed December 10, 2001)
_____)	

OPINION

Summary of Decision

This decision grants Park Water Company (Park Water) the authority requested in Application (A.) 01-12-011.

Park Water requests authority pursuant to § 816 et. seq. of the Public Utilities (PU) Code to issue its First Mortgage Bonds (Bonds) in the aggregate principal amount not to exceed \$10,000,000.

The proceeds of the issuance are to be used to reimburse Park Water's treasury for capital expenditures funded from Park Water's earnings and its treasury.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of December 14, 2001. No protests have been received.

Background

Park Water, a Class A water utility, operates a public utility water system in the southeastern and northeastern sections of Los Angeles County (Central Basin Division). Park Water owns Apple Valley Ranchos Water Company (Apple Valley), which operates a public utility water and sewer system in and near the town of Apple Valley in San Bernardino County. Park Water also owns Mountain Water Company (Mountain Water), which provides water service within and around the community of Missoula, Montana. Park Water borrows funds required by the operations of its Central Basin Division and its subsidiaries. It transfers capital as needed to its division and subsidiaries through

intercompany transactions, thereby allowing the subsidiaries to benefit from Park Water's greater borrowing power and obtain debt at a lower cost.

In the most recent general rate proceedings for Park Water's subsidiaries in California and Montana, both this Commission and the Montana Public Service Commission recognized a single consolidated capital structure for all Park Water and all its subsidiaries.

Pursuant to its Income Statement for the nine months ended September 30, 2001, shown as Exhibit A to the Application, Park Water reported it generated total operating revenues of \$12,417,742 and net loss before taxes of \$785,845.

Park Water's Balance Sheet at September 30, 2001, shown also as part of Exhibit A, is summarized as follows:

<u>Assets and other Debits</u>	<u>Amount</u>
Utility Plant at Cost	\$ 39,561,124
Depreciation Reserve	(12,227,375)
Intercompany Investments and Receivables	52,255,793
Current and Accrued Assets	10,850,819
Deferred Debits	<u>2,774,939</u>
Total	<u>\$ 93,215,300</u>
<u>Liabilities and other Credits</u>	
Capital Stock and Surplus Profit	\$ 9,864,548
Long-term Debt	33,349,091
Intercompany Advance and Payable	40,539,499
Current and Accrued Liabilities	3,912,904
Deferred Credits	1,752,504
Advances for Construction	1,617,461
Contributions in Aid of Construction	<u>2,179,293</u>
Total	<u>\$ 93,215,300</u>

Description of Financing

Park Water seeks authority to issue Bonds in the aggregate principal amount not to exceed \$10,000,000. The Bonds will be privately placed to a limited number of institutional investors with whom Park Water is currently in negotiation. Park Water anticipates that the

form of the Bonds will be similar to the form of bonds included in its Seventh Supplemental Indenture dated June 1, 2000, shown as Exhibit B to the Application, with such changes or additions deemed necessary or appropriate in order to meet current market demands.

The Bonds will have an average life of 10 to 12 years, with the last Bond maturing 12 years after issuance, and with interest rate that reflects the then market conditions for bonds issued by companies similar to Park Water. Park Water expects to issue the Bonds by early 2002.

The Bonds will be secured by and issued under the provisions of Park Water's existing Trust Indenture, dated November 1, 1973 (Original Indenture), as supplemented (Indenture), or as a restated indenture (Restated Indenture).

The Original Indenture has been previously filed with the Commission and the First through the Fifth Supplemental Indentures were attached as Exhibit C to A.95-05-027; the Sixth Supplemental Indenture was attached as Exhibit B to A.99-03-023; and as previously mentioned, the Seventh Supplemental Indenture is attached as Exhibit B to this Application.

Park Water will either execute an Eighth Supplemental Indenture (Supplement) that will cover the issuance of the Bonds requested in the Application, or it will issue the Bonds under the Restated Indenture if the Restated Indenture is completed and executed by the time the Application receives Commission approval. The Restated Indenture requires approval by the holders of two-thirds in principal amount of the bonds outstanding under the Indenture. Park Water anticipates that if the Bonds are issued under the Supplement (if the Restated Indenture has not been completed in time for their issuance), the Supplement will be similar in form and content to the Seventh Supplemental Indenture, with such changes or additions thereto that Park Water determines necessary or appropriate in order to meet current market demands.

The purpose of the Restated Indenture is to streamline and modernize the Indenture, which was created in 1973, and to clarify certain ambiguities that have developed over the years as various supplements have been added to it. The restatement will not change any of the specific terms, rates and other provisions that relate to Park Water's current outstanding bonds. The Restated Indenture will clarify, however, the obligations and rights of Park Water and the bondholders under the Indenture and eliminate unnecessary provisions and

verbiage. The existing lien of the Indenture on the assets of Park Water will continue under the Restated Indenture.

Capital Ratios

Park Water and subsidiaries consolidated capitalization as of September 30, 2001 are shown below as recorded and as adjusted to give pro forma effect to the proposed \$10,000,000 debt issue:

	<u>Recorded</u> (\$000)	%	<u>Pro Forma</u> (\$000)	%
Equity ¹	58,100	63.5	58,100	57.3
Long Term Debt ²	<u>33,349</u>	<u>36.5</u>	<u>43,349</u>	<u>42.7</u>
Total Capitalization	<u>91,449</u>	<u>100.0</u>	<u>101,449</u>	<u>100.0</u>

Capital structures are normally subject to review in cost of capital or general rate case proceedings. We will not, therefore, make a finding in this decision of the reasonableness of the projected capital ratios for ratemaking purposes.

Use of Proceeds

Between April 1, 1996 and December 31, 1997, Park Water expended \$15,355,500, funded from its earnings and its treasury, for capital projects undertaken by its Central Basin Division, its California subsidiaries, and Mountain Water. Pursuant to its supplemental data to the Application dated January 11, 2001, Park Water's Summary of Company Funded

¹ Total equity reflects Park Water and its subsidiaries including Mountain Water and Apple Valley. The portion of the total equity for Park Water is \$9,864,548.

² Park Water's subsidiaries do not have outside debt. Park Water serves as a common source of any necessary debt capital for its subsidiaries.

Capital Expenditures for the period April 1, 1996 to December 31, 1997 follows:

<u>Division</u>	<u>1996</u>	<u>1997</u>
Corporate	\$ 323,100	\$1,028,000
Central Basin	1,020,200	3,037,400
Mountain – Missoula	862,000	5,178,700
Mountain – Superior	480,600	646,800
Apple Valley Ranchos	1,276,100	1,499,700
Jess Ranch Water	(600)	0
Jess Ranch Sewer	0	0
Jess Ranch Irrigation	<u>3,500</u>	<u>0</u>
Total	\$3,964,900	\$11,390,600
Accumulative Total	\$3,964,900	\$15,355,500

As a result of these capital expenditures, Park Water's cash reserves are significantly depleted and it proposes to use the net proceeds from the sale of the Bonds to reimburse its treasury.

§ 817 of the PU Code provides:

“ A public utility may issue stocks and stock certificates or other evidence of interest or ownership, and bonds, notes, and other evidences of indebtedness payable at periods of more than 12 months after the date thereof, for any one or more of the following purposes and no others:

- (a) For the acquisition of property.
- (b) For the construction, completion, extension, or improvement of its facilities.
- (c) For the improvement or maintenance of its service.
- (d) For the discharge or lawful refunding of its obligations.
- (e) For the financing of the acquisition and installation of electrical and plumbing appliances and agricultural equipment which are sold by other than a public utility, for use within the service area of the public utility.
- (f) For the reorganization or readjustment of its indebtedness or capitalization upon a merger, consolidation, or other reorganization.
- (g) For the retirement of or in exchange for one or more outstanding stocks or stock certificates or other evidence of interest or ownership of such public utility, or bonds, notes, or other evidence of indebtedness of such public utility, with or without the payment of cash.

(h) For the reimbursement of moneys actually expended from income or from any other money in the treasury of the public utility not secured by or obtained from the issue of stocks or stock certificates or other evidence of interest or ownership, or bonds, notes, or other evidences of indebtedness of the public utility, for any of the aforesaid purposes except maintenance of service and replacements, in cases where the applicant has kept its accounts and vouchers for such expenditures in such manner as to enable the commission to ascertain the amount of money so expended and the purposes for which such expenditure was made.”

Under the PU Code, a utility which seeks permission to issue stock, bonds, notes, or other evidences of indebtedness payable at periods of more than 12 months to reimburse itself on account of moneys expended must make two affirmative showings: first, that the money so expended was not obtained from the issue of stock, bonds, notes or other evidences of indebtedness; and, second, that the money was actually expended for one or more of the purposes allowed under the PU Code.

Park Water’s proposed use of proceeds is for proper purposes and is not adverse to the public interest. Park Water’s debt issue will be used to reimburse its treasury for capital expenditures incurred between April 1, 1996 to December 31, 1997 and funded from its earnings.

Since the proceeds from the debt are not intended for any prospective construction program or funding of on-going operations, Park Water’s construction budget and the cash requirements forecasts are not addressed in this Decision.

In Resolution (Res.) ALJ 176-3079 dated January 9, 2002, the Commission preliminarily categorized this Application as ratesetting, and preliminarily determined that hearings were not necessary. No formal protests have been received. Given these developments, a public hearing is not necessary, and there is no need to alter the preliminary determinations made in Res. ALJ 176-3079.

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to § 311(g)(2) of the PU Code, the otherwise applicable 30-day period for public review and comment is being waived.

We approve Park Water’s Application in this order.

Findings of Fact

1. Park Water is a public utility subject to the jurisdiction of this Commission.
2. Park Water's capital projects in its Central Basin Division, its California Subsidiaries and Mountain Water, between April 1, 1996 and December 31, 1997, were funded from Park Water's earnings and its treasury.
3. Park Water needs external funds for the purposes set forth in the Application.
4. The proposed issuance of Bonds and the execution of a Supplement or a Restated Indenture would not be adverse to the public interest.
5. The money, property, or labor to be procured or paid for by the proposed issuance of Bonds is reasonably required for the purposes specified in the Application.
6. The Commission does not by this decision determine that Park Water's capital ratios are reasonable for ratemaking purposes. This issue is normally tested in ratemaking proceedings.
7. Notice of the Filing of the Application appeared on the Commission's Daily Calendar of December 14, 2001. There is no known opposition and there is no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.
2. The Application should be granted to the extent set forth in the order that follows.
3. The proposed issue of Bonds is for lawful purposes and the money, property, or labor to be obtained is required for these purposes.
4. Section 817(h) of the PU Code allows a public utility to issue stocks or other evidences of indebtedness payable at periods of more than 12 months for the reimbursement of moneys actually expended from income or from any other money in the treasury of the public utility not secured by or obtained from the issue of stocks or stock certificates or other evidence of interest or ownership or bonds or notes or other evidences of indebtedness of the public utility, for any of the authorized purposes except maintenance replacements expenses, in cases where the utility has kept its accounts and vouchers for such expenditures in such manner as to enable the Commission to ascertain the amount of money so expended and the purposes for which such expenditure was made.

5. Park Water should pay the fee determined in accordance with § 1904(b) of the PU Code.
6. The following order should be effective on the date of signature.

ORDER

IT IS ORDERED that:

1. On or after the effective date of this order, Park Water Company (Park Water), upon terms and conditions consistent with those described at pages 2 to 4 of this decision, is authorized to:
 - (a) issue its First Mortgage Bonds (Bonds) in the aggregate principal amount not to exceed \$10,000,000; and
 - (b) execute and deliver the Eighth Supplemental Indenture or a Restated Indenture.
2. Park Water shall apply the proceeds of the sale of the Bonds to reimburse its treasury on account of moneys expended for capital expenditures, as described in the Use of Proceeds section of this decision.
3. Park Water shall file with the Commission's Water Division copies of the agreements for the sale of the Bonds and the Eighth Supplemental Indenture or a Restated Indenture within thirty (30) days of execution.
4. On or before the 25th day of each month, Park Water shall file the reports required by General Order Series 24.
5. The authority granted by this order shall become effective when Park Water pays \$11,000 as required by § 1904(b) of the Public Utilities Code.
6. Application 01-12-011 is granted as set forth above.

7. Application 01-12-011 is closed.

This order is effective today.

Dated _____, at San Francisco, California.